

2015 ANNUAL REPORT

Benefiting Education and Institutions Since 1970



TABLE OF CONTENTS

Government Leadership	3
Executive Director's Letter	4
Giving Back	6
Responsible Play	7
Instant Games	8
Game Changers	8
Million Dollar Replay	9
VIP Club	9
Pick-3	10
Pick-4	10
Jersey Cash 5	11
Pick-6 XTRA	12
Powerball with Power Play®	13
Mega Millions with Megaplier®	13
Monopoly Millionaires' Club	14
CASH4LIFE	15
Brand Refresh	16
Winners and Promotions	17-18
Financial Statements	19



Since its inception in 1970,
the New Jersey Lottery has
contributed nearly

\$24 billion

to the State in support of
education and institutions.
Among its beneficiaries
are: veterans homes,



colleges and
universities, school
nutrition programs,
homes for the
developmentally
disabled, psychiatric
hospitals, higher education
scholarship programs and
the Marie Katzenbach
School for the Deaf.



GOVERNMENT LEADERSHIP

in Fiscal Year 2015



Chris Christie
Governor



Kim Guadagno
Lieutenant Governor



Andrew P. Sidamon-Eristoff
State Treasurer

LOTTERY COMMISSIONERS



Thomas Tucci, Jr.
Chairman



Frank V. Ragazzo
Vice Chairman



Al Alvarez, Esq.
Commissioner



Robert J. D'Anton
Commissioner



Patrick P. Toscano, Esq.
Commissioner



Robert Slater
Commissioner

EXECUTIVE DIRECTOR'S LETTER

Fiscal Year 2015 at the New Jersey Lottery was replete with partnerships, technological advancements and innovation that heightened staff productivity, increased data visibility for retailers and enhanced engagement with our players.

Fiscal Year 2015 was filled with achievements that exemplified the strength of the relationship between the Lottery and its business partner, Northstar New Jersey. Staffing was at desired levels and the Lottery and Northstar teams were fully integrated and actively and regularly engaged in action plan implementation. The Northstar contract added additional expertise in technology, marketing and sales, which made the execution of our goals a reality. The list of accomplishments is impressive.

The technology team completed a great number of enterprise-level projects that enhanced internal and external operations. I will highlight just a few, beginning with the comprehensive internal automated "claims and payment" system (CAP). The CAP system was launched in October 2014, to streamline and modernize the claims and payment process. This new system is a great asset to the Validations Department which allows staff to track claimants and their claims through the entire life cycle of a payment with an emphasis on added security and data integrity. The new CAP system also maximizes debt collection for various government agencies.

Beginning in January 2015, the Lottery introduced its new slogan, refreshed logo, rebranded television studios and updated Clover Room (winner room). The "Anything Can Happen in Jersey" tagline made its television debut in an advertising campaign featuring New Jersey natives who had made significant accomplishments in the fields of entertainment, science and business. The commercial's backdrop included iconic locations across the state, including the Hudson River and Jersey City skyline, the Asbury Park Convention Hall, a Turnpike sign for the Garden State Parkway and the Tick Tock Diner in Clifton. The refreshed logo and messaging was gradually updated across all Lottery assets in stores, in all advertising mediums and in promotions.

While pushing out the refreshed creative brand, we wanted to ensure that we were also listening to our players. During that time period, we instituted an online research community called Game Changers. This community was comprised of a diverse group of players with varying characteristics and game favorites. They were engaged with surveys and encouraged to share their preferences and provide insights and ideas for new games and promotions. The program grew to 3,500 members by the end of the fiscal year. It continues to be a viable and growing community providing invaluable feedback.

The compelling "Anything Can Happen in Jersey" campaign captured the distinct local flavor and authenticity that New Jerseyans embody. The premiere use of the new creative was to introduce New Jersey's first \$30 instant ticket, \$5,000,000 Cash Extravaganza. The \$30 game offered the largest prize ever available in an instant ticket—\$5 million. Shortly after the game launch, a young woman from Linden, NJ won the top prize. The Lottery announced the win with a highly attended press conference on March 9, 2015. The game went on to become the largest grossing instant ticket for the year with more than \$111 million sold.



Carole Hedinger, CPA
Executive Director

The advertising and marketing team created and produced more than 25 advertising and point-of-sale campaigns that included more than 565 projects during the year. These campaigns introduced players to new games, supported retailers, and created jackpot and winner awareness. The Lottery brand was strongly integrated into the everyday lives of New Jersey residents.

In March of 2015, a new and improved website was launched using creative designs to provide players a New Jersey Lottery brand experience. The resulting website provided easier navigation and emphasized up-to-the-minute data for players, including winning numbers, how to play information, promotional data, and news and information for media outlets. The team extended the website experience into a new mobile application to align with the growing use of smart phones and hand-held devices.

In addition to the new website for players, a new retailer website also was launched providing retailers with an additional way to manage their Lottery business. With more detailed data points, inventory tools, forms, newsletters and other reference materials, the modernized secure interface allows store owners and managers the ability to track their business outside of the store. These tools provide retailers with customized visibility into his or her local market.

Our retailers are always top of mind when managing technology, products and promotions because they are the face of the Lottery to the consumer. A major

accomplishment this fiscal year was the addition of two chain store partners, Rite Aid and Wawa. Rite Aid added 196 new Lottery locations, which provided nearly \$5 million in new sales. Wawa added 242 new Lottery locations, resulting in more than \$69 million in sales. These new partnerships were made possible by Northstar's investment in technology, which allowed us to provide full-service vending machines in these stores.

Staying in the digital space, the popular Million Dollar Replay second chance program also was incorporated into the new website. The updated interface improved the player accounting system. The upgraded technology will allow additional features to be added to the platform in the future.

In spite of the national decline in Powerball and Mega Millions game sales, the Lottery performed exceptionally well, achieving \$3 billion in sales for the first time in its 45-year history. Fiscal Year 2015 exemplified the best possible outcome based on market conditions that were beyond anyone's ability to predict or control. The year illustrated business management expertise that blended the art of marketing and the innovation of technology to pave new paths for increasing revenue for our beneficiaries. I am pleased to present the Fiscal Year 2015 Annual Report for your review.

Very truly yours,
Carole Hedinger, CPA

New Jersey Lottery Mission Statement

The mission of the New Jersey State Lottery is to raise revenue for maximum contribution to State education and institutions benefiting the citizens of New Jersey through the sale of lottery products. We accomplish this by providing entertaining products through a dynamic public business enterprise built upon honesty, integrity, customer satisfaction, teamwork, and public/private partnerships.

NEW JERSEY LOTTERY GIVING BACK

New Jersey Lottery Fiscal Year 2015 Revenue Distribution

The New Jersey Lottery is the State's fourth largest revenue producer. In Fiscal Year 2015, the Lottery grossed more than \$3 billion in sales, contributing \$960 million, or nearly 32 percent of sales, to the State in support of its beneficiaries.

Since its inception in 1970, the Lottery has contributed nearly \$24 billion to programs that benefit millions of New Jersey residents through the School Nutrition Program, Student Tuition Assistance Reward Scholarships, Marie H. Katzenbach School for the Deaf, Homes for Disabled Veterans and many other organizations and programs that benefit from Lottery proceeds.



The New Jersey Lottery Speaker's Bureau program shares the benefits of Lottery contributions in support of these good causes with members of the general public. Rotary groups, senior citizen groups and other organizations are informed and entertained across

the state with our no-cost program. The presentations provide interesting facts about the New Jersey Lottery and its history, as well as information about our games, retailers and winners. The program also includes information about the importance of playing responsibly and the Lottery's support of the Amber Alert and the Silver Alert Programs.

The New Jersey Lottery also plays a key role in supporting businesses throughout the state. At the end of Fiscal Year 2015, the Lottery had 7,600 retailer licenses issued – up from 6,900 the prior year.

Retailers are the public face of the Lottery brand and provide customer service and product support. In return, retailers earn a 5-percent commission on their Lottery ticket sales in addition to ticket-cashing bonuses and special product promotion bonuses. In Fiscal Year 2015, the Lottery returned more than \$169 million, up from \$162 million, in commissions to its retail business partners throughout the state.

STATE OF NEW JERSEY PROGRAMS SUPPORTED BY STATE LOTTERY RESOURCES FOR THE YEAR ENDED JUNE 30, 2015

(Amounts expressed in thousands)

Amount Expended and/or Encumbered (a)

DEPARTMENT OF AGRICULTURE

School Nutrition	\$	3,410
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DEPARTMENT OF EDUCATION

Marie Katzenbach School for the Deaf	3,960
Non-Public School Aid	57,611
Statewide Assessment Program (Grades 4, 8, 11)	13,868
School Construction and Renovations	30,397

TOTAL DEPARTMENT OF EDUCATION	105,836
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HIGHER EDUCATIONAL SERVICES

Senior Public Institutions-Operating Aid	267,959
Tuition Aid Grants	222,511
Higher Education Capital Improvement Plan-Debt Service	19,619
Coordinated Garden State Scholarship Program	4,170
Student Tuition Assistance Reward Scholarships (NJStars)	3,956
Opportunity Program Grants	16,347
Supplementary Education Program Grants	8,187
Veterinary Medicine Education	310

TOTAL HIGHER EDUCATIONAL SERVICES	543,059
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DEPARTMENT OF HUMAN SERVICES

Operation of Centers for Developmentally Disabled	76,283
Operation of State Psychiatric Hospitals	183,787

TOTAL DEPARTMENT OF HUMAN SERVICES	260,070
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DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Operation of Home for Disabled Soldiers	47,625
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TOTAL REVENUE REALIZED-GAAP BASIS	\$	960,000
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(a) The amount of State Lottery funding in the programs designated above, may only represent a portion of its total State funding. Any balance of the appropriation for the program would be funded by the General Fund. Program funding is allocated in a manner consistent with prior year expenditures level for each respective program.

Andrew P. Sidamon-Eristoff, State Treasurer

RESPONSIBLE PLAY

The New Jersey Lottery is dedicated to achieving its mission of generating revenue in support of education and other vital institutions in a responsible manner.

In our efforts to secure our place as a model organization, we have taken additional steps in implementing industry best practices as defined by the World Lottery Association (WLA) in its Responsible Gaming Framework (RGF). In September 2012, the Lottery received its Level I Responsible Gaming Framework Certificate of Accreditation.



This fiscal year, the Lottery achieved the WLA Level II and Level III Responsible Gaming Framework Certificates of Accreditation. Only

five other Lotteries in the nation have achieved the Level III Certification.

The Lottery continues to work with our partner, Northstar New Jersey Lottery, to make advances toward attaining the highest responsible gaming recognition offered in the industry by achieving the WLA Level IV Certificate of Accreditation.

The Lottery is committed to responsible gaming, and maintains a position on the Board of Directors of the Council on Compulsive Gambling of New Jersey (CCGNJ) and remains actively engaged in its mission. To further support the responsible play mission, the New Jersey Lottery promotes the responsible play message and the 1-800-GAMBLER® phone number to millions of players each year on every Lottery product, in all advertising and marketing messaging in print, broadcast, radio and in all of its cyber spaces.

The Lottery educates and builds public awareness about underage gambling, featuring the "Not 18 Yet? No Bet" messaging. This year a press conference

was held on August 7, 2014, to coincide with the American Gaming Association's Responsible Gaming Education Week and with the back-to-school season.



On Dec. 2, 2014, Lottery officials and CCGNJ officials issued a joint press release discouraging the purchase of lottery tickets as gifts for minors during the holiday season. Both organizations continued to stress that message throughout the season.

Gov. Christie issued a proclamation declaring March 2015 as Problem Gambling Awareness Month in New Jersey. Supporting this initiative, the Lottery and the CCGNJ held a press conference at Lottery headquarters to mark the event and to help build public awareness of the signs and treatment options for compulsive gambling.

The Lottery sponsored and attended the 32nd Annual Statewide Conference on Compulsive Gambling held on Sept. 19, 2014. National leaders, treatment professionals, educators and members of the gaming community came together to discuss matters related to problem gambling, its prevention and treatment.

In its commitment to encourage responsible gaming, the Lottery continued to participate in meetings with members of the Responsible Gaming for the Future Working Group to address problem gambling issues. These meetings brought together professionals from the fields of regulatory gaming, the casino industry, academics, criminal justice and public health to exchange ideas and to work together to promote public awareness of responsible gaming and raise awareness of treatment options available for individuals with gambling problems.



The Instant Games category proved to be a player favorite once again. Total instant ticket sales topped \$1.70 billion, a year-over-year increase from \$1.53 billion. Instant ticket sales represented 56.15 percent of total game sales, up from 52.58 percent the prior year.

The year's top-selling game was a \$30 ticket called

\$5,000,000 Cash Extravaganza, with sales reaching over \$111.6 million. The second highest grossing ticket was a \$10 game called \$150,000,000 Cash Spectacular, selling more than \$84.3 million for the year. The third ranking seller for the year was a \$20 game called \$2,000,000 Mega Cash, which sold \$75.1 million.

The wide variety of games, price points and large number of winning opportunities for players make the Instant Game category appealing to diverse groups of players. This year, there were 33 top-prize winning tickets sold that had an advertised prize of \$1 million dollars or more. Overall, \$1.14 billion was paid out in cash prizes to instant ticket winners, up from \$1.03 billion in Fiscal Year 2014, providing a prize payout of 67.23 percent of sales.

Retailers earned more than \$98.7 million in commissions up from \$88 million the prior year. Instant ticket sales contributed \$401 million to Lottery beneficiaries.



A press conference was held at which Director Hedinger introduced Lacey Katona from Linden, NJ as the first winner of the largest instant ticket top-prize ever offered by the Lottery with the \$5,000,000 Cash Extravaganza game.

Game Changers

Understanding one's customers is essential to achieving customer satisfaction, encouraging brand engagement and maintaining consistent growth. To that end, in January 2015, the Game Changers program was developed to give players a voice and direct line of communication to the Lottery.

Game Changers is an online community of approximately 3,500 New Jersey residents. The members are either engaged, occasional, lapsed

or non-lottery players. They receive online surveys, participate in online discussion forums, and are offered other fun activities. They provide their opinions on products and insights into various aspects of how the Lottery interacts with its players.

The symbiotic relationship provides vital, rapid feedback to the Lottery while empowering members with a voice that can effectuate change. In addition, each month members have a chance to win prizes for their participation.



Fiscal Year 2015 marked the fourth year in which the Million Dollar Replay program provided lottery players with the opportunity to enter non-winning Instant Game tickets into a second-chance drawing. The year-long program began on Jan. 1, 2014, and ran through December 31, 2014. Each quarter, the program awards 100 semi-finalists \$250 each as well as entry into the final Grand Prize Drawing.



Raymond Beresford Hamilton is a two-time NJ Lottery winner. On Oct. 18, 2014, he had a one million dollar prizewinning Diamond Spectacular ticket. Then, the retired Army Sergeant First Class won \$100,000 as a finalist in the 2014 Million Dollar Replay second-chance drawing.



(l-r) Erica Young, Lottery Drawing Hostess and Margaret Square, the longest serving Lottery employee, preside over the 2014 Million Dollar Replay Grand Prize Drawing held at Lottery Headquarters.

The Grand Prize Drawing was held on Feb. 12, 2015, at Lottery Headquarters at which 15 lucky players were chosen to win one of the top cash prizes: one \$1 million grand prize, two \$100,000 prizes, three \$50,000 prizes, four \$25,000 prizes, and five \$10,000 prizes – for a total of \$1.5 million.

Excitement for the program remained robust with Instant Game players. This year, the Lottery received more than 7.9 million entries during the four quarters of the program. There were more than 17.5 million tickets entered through the VIP Club Million Dollar Replay entry portal. Each entry signified \$10 worth of non-winning, eligible instant scratch off tickets.



(l-r) NJ Lottery Deputy Executive Director, John Custodio; Robert Pollison from Ewing in Mercer County, was one of the \$100,000 2014 Million Dollar Replay second-chance drawing prize winners; Margaret Square, Deputy Director, Operations.



The VIP Club is a free, online Lottery membership club that provides players access to daily winning number emails, special promotions through the Lottery Bonus Zone Second-Chance Drawings games and the Million Dollar Replay second-chance program. Membership to the club increased to more than 310,555 people, up from 275,382, in the prior fiscal year.

The Lottery Bonus Zone Second-Chance Drawings games provide player opportunities to win a diverse array of prizes such as experiential trips, tickets for family entertainment and various prize packs. Second-chance drawings were available for Instant Games such as World Series of Poker® and Escape to Margaritaville®.

Players had the opportunity to win prizes such as a trip for two to Atlantic City and an Escape to Margaritaville® trip to Key West, FL. Those opportunities fostered continued interest and excitement in playing the Lottery Instant Game line of products.



Pick-3 was originally introduced to the Lottery playing public as Pick-It in 1975 and was an immediate success. The once nightly draw was expanded to include a midday draw in 2001, the same year that the immediate play option, Instant Match, was introduced. Instant Match provides players with an additional opportunity to win up to \$500 prior to the draw. The game remains the longest running draw-based game at the Lottery.

Players select three numbers between 0 and 9, or opt for a Quick Pick, and choose from multiple strategic play opportunities, beginning with a 50-cent wager. Game sales for the midday and evening draws, including Instant Match, topped \$437.7 million in Fiscal Year 2015, up from \$436.7 million the prior year. Instant Match sales were more than \$4.0 million.

Pick-3 players won more than \$220 million during the year, providing a prize payout of 50.32 percent of sales. The highest payout for the year was \$488 for a straight bet, \$163 for a box bet and \$49 for a pair.

Pick-3 total sales represent 14.59 percent of overall Lottery ticket sales. In total, the Pick-3 game generated more than \$24.5 million in retailer commissions and more than \$183.7 million toward the overall contribution to Lottery beneficiaries.



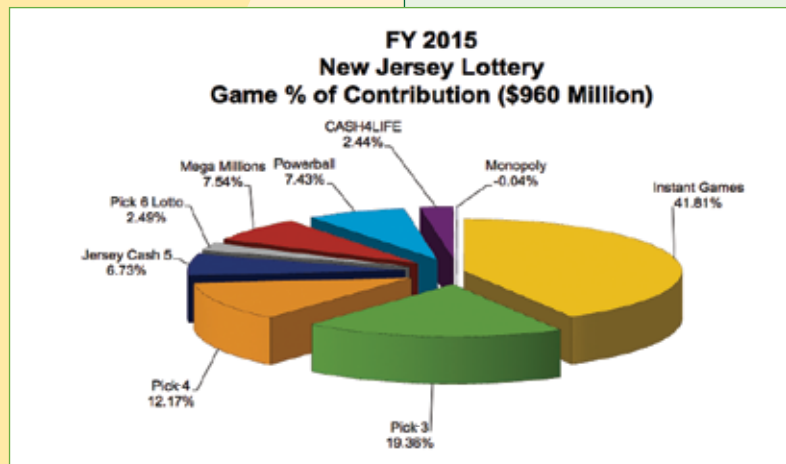
Pick-4 is the second highest revenue producer in the Lottery's draw-based game category. The game was introduced in 1977 to complement the success of the Pick-3 game. Pick-4 was designed to produce larger prizes for players.

Players choose four numbers between 0 and 9, or request a Quick Pick, and let the excitement begin. Players may wager from 50 cents up to \$5 to play midday and evening draws. They have the option of choosing from one of six bet types to win cash prizes. For an additional dollar per wager, players can instantly become winners with Instant Match. Instant Match provides a second, immediate opportunity to win up to \$500 with each board purchase.

Sales topped \$271.7 million in Fiscal Year 2015, including Instant Match, up from \$268 million the previous year. Instant Match sales were more than \$4.9 million.

There were 578,504 Pick-4 winners who won more than \$137 million in prizes, providing a prize payout of 50.48 percent of sales. The highest straight bet payout for the year was \$5,388 and the highest box payout was \$870.

Pick-4 total sales represent more than 9 percent of overall Lottery ticket sales. In total, the Pick-4 game generated more than \$14.6 million in retailer commissions and more than \$115 million toward the overall contribution to Lottery beneficiaries.





John Kungl was just shy of his 70th birthday when he realized that he had the sole Jersey Cash 5 jackpot winning ticket from the Jan. 12, 2015 drawing worth \$882,518.



NJ Lottery had a lucky Yolanda when she won \$1,388,855 playing Jersey Cash 5 from the April 22, 2015 drawing.



Oct. 7, 2014 Jersey Cash 5 winner, Fabio from Union, NJ, says he will use a portion of his \$507,103 jackpot win for education.



Jesus, a married, father of two, was thrilled to win the Jersey Cash 5 \$403,644 top prize from the May 26, 2015 drawing.

The Jersey Cash 5 draw-based jackpot game was introduced to the playing public in September of 1992. To refresh the long-time favorite game and provide players with the larger jackpots they desire, a number of game changes were made, beginning with the Sept. 14, 2014 drawing. Those changes included increasing the estimated minimum jackpot to \$75,000, up from \$50,000. In addition, the Match-3 average prize payout increased to \$15, up from \$11. Lastly, the field of numbers from which players select their five numbers increased to 43 from 40.

The changes achieved our goal of increasing the jackpot size resulting in an average jackpot of \$239,741, up from \$196,478.

Game sales for the year were more than \$148.4 million, up from \$148.2 million. Instant Match contributed more than \$3.3 million to the cited ticket sales. There were 1.12 million winning tickets sold in the year with those ticketholders claiming more than \$74.2 million in cash prizes, providing a prize payout of 50.24 percent of sales. Of those tickets, 161 were jackpot winners with

the Nov. 22, 2014 jackpot reaching \$1,582,562. That was the fourth largest jackpot in the game's 23-year history and was split by two winning tickets that were sold in Long Branch, Monmouth County and Brick, Ocean County.

Overall, Jersey Cash 5 sales contributed nearly 5 percent toward total Lottery sales. Jersey Cash 5 game sales generated more than \$7.4 million in retailer commissions and contributed more than \$63.8 million to Lottery beneficiaries.



(l-r) Director Hedinger announces Karen and Robert Mallen as the winners of the \$9.1 million Pick-6 jackpot from the Monday, Dec. 29, 2014 drawing at the ACME Markets store with their associates.

The 35-year-old Pick-6 Lotto game received an upgrade, with the addition of XTRA, beginning with the Jan. 15, 2015, drawing. Pick-6 XTRA increases the game's base prize amounts by a randomly selected multiplier number during the Pick-6 XTRA draw. The purchase of XTRA also enables players to win \$2 for matching only two numbers. XTRA is an additional \$1 per ticket, making the total purchase \$2 per play.

The game created more than 1.4 million winners this year with prizes ranging from \$2 to \$9.1 million. The addition of XTRA afforded 323,498 players a \$2 win that they would not have received without it. In total, players won more than \$30 million in cash prizes this fiscal year, providing a prize payout of 52.35 percent of sales.

Pick-6 had six jackpot winners this fiscal year ranging from \$2.0 million up to \$9.1 million. That winning ticket was sold in Cape May County at Acme #7890, 11 Court House South Dennis Road in Cape May Court House.

Game sales topped \$57.6 million, down from \$77.5 million last fiscal year. The decline may be attributed to the disproportionate jackpot sizes between the in-state Pick-6 game and the multi-state Mega Millions and Powerball games. In addition, during the prior fiscal year, the game had the added benefit of the fifth largest jackpot in the game's history, reaching \$20.1 million.

As a result, sales more than doubled from the typical monthly average in the three months prior to the jackpot being hit on June 16, 2014.

Pick-6 sales contributed more than 1.9 percent toward total Lottery sales and generated more than \$2.9 million in retailer commissions and contributed more than \$23.6 million to Lottery beneficiaries.

The lucky retailer, ACME Markets, spread the good fortune further with donations to community organizations through their Share the Luck program.



New Jersey Lottery



New Jersey began selling Powerball tickets on Jan. 31, 2010, prior to which Mega Millions was the exclusive multi-state game available. Powerball is an online game jointly operated and sold by 44 state lotteries, the District of Columbia, Puerto Rico and the Virgin Islands.

Powerball sales were strong at inception but peaked at \$300 million in Fiscal Year 2013. Nationwide declines became evident beginning in Fiscal Year 2014 and continued through Fiscal Year 2015. The year ended with total sales of \$165.4 million, down from \$233.6 million in the prior year. The decline was nationally recognized, documented and attributed to a phenomenon known as “jackpot fatigue” whereby players require exponentially larger jackpots to attract attention and stimulate purchase behavior and media coverage.

New Jersey Lottery Powerball sales remain the sixth largest relative to the 47 Powerball ticket-selling Lotteries. More than 2.4 million New Jersey Lottery players won more than \$85.5 million in prizes, providing a prize payout of 51.69 percent of sales.



(l-r) Rocklin Four group members, Scott Goldberg, Daniel Blackley, Robert Kerr, Thomas Reagan claim their \$40,000,000 Powerball jackpot win.

Overall, Powerball sales contributed more than 5.5 percent toward total Lottery sales. Retailers received more than \$8.4 million in commissions, while the game contributed more than \$70 million to Lottery beneficiaries for the year.



Mega Millions created eight New Jersey Lottery millionaires this fiscal year when their tickets matched the five white balls for the draws. The jackpot was hit six

times during the Fiscal Year by winners across the country. Each time the jackpot is hit, it resets to the \$15 million baseline. Although fortunate for players in various states, the consistent jackpot resetting heightened the impact of the “jackpot fatigue” syndrome as described in the Powerball section. As a result, Mega Millions sales were \$162 million,

down from \$205.8 million the prior year. The year’s top jackpot of \$321 million paled in comparison to the prior year’s historic \$648 million jackpot from the Dec. 17, 2013 drawing, which was the second largest jackpot in game history.

Mega Millions ticket sales represent 5.41 percent of overall ticket sales for the year. More than 10.4 million New Jersey Lottery players won more than \$82.1 million in prizes providing a prize payout of 50.59 percent of sales. Retailers received more than \$8.3 million in commissions, while the game contributed more than \$71.5 million to Lottery beneficiaries for the year.



The MONOPOLY MILLIONAIRES' CLUB online draw game was created in response to national lottery player requests for a game style that offered a multitude of substantial prizewinners in contrast to the one or two enormous jackpot winners typically awarded by the multi-state games of Powerball and Mega Millions.

The innovative game design achieved that goal by offering

players three different ways to win significant prizes. The first was with a Top Prize that began at \$15 million and grew with each draw to a maximum prize of \$25 million. The rules state that when a player wins the Top Prize a second drawing would take place. The second drawing would select Monopoly Club Numbers to determine the ticket numbers that would be awarded one of a minimum of 10 \$1 million prizes. The number of \$1 million dollar prizes would increase based on overall ticket sales for that drawing. The third winning opportunity was created with an online second-chance component that randomly selected players using a webcode. Those chosen would win a trip to Las Vegas to appear on the MONOPOLY MILLIONAIRES' CLUB nationally televised game show, where they may be selected to win a portion of the \$2.5 million in available prize money for each episode.

The MONOPOLY MILLIONAIRES' CLUB was launched in 23 states on Oct. 19, 2014, at a \$5 ticket price. The unique MONOPOLY MILLIONAIRES' CLUB lottery game was expected to generate more simultaneous millionaires than any other game in lottery history. After just three draws, New Jersey had the honor of awarding the first Top Prize winner with a \$21 million prize and Top Hat, representing the iconic MONOPOLY game symbol. That draw produced 14 other millionaires across the 23 participating states, achieving the game design's goal.

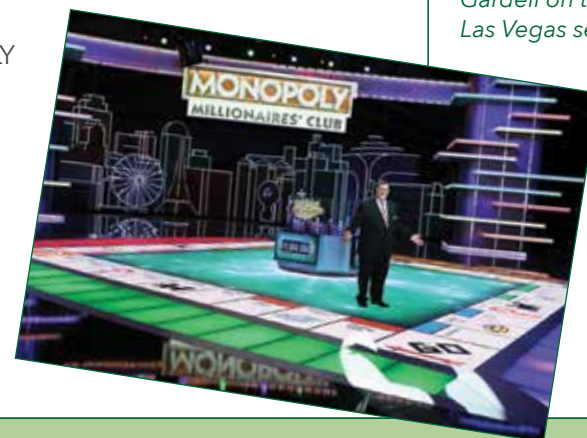
However, it quickly became apparent that players were not participating in the game as anticipated. Game sales nationwide were below industry projections, and the game in its original form was discontinued on Dec. 26, 2014.



Director Hedinger crowns Wayne O'Keefe as the first top prize winner of the MONOPOLY MILLIONAIRES' CLUB lottery game claiming the \$21 million annuity prize from the Nov. 7th drawing.

New Jersey and the other remaining lotteries fulfilled their financial obligations to players and also produced the televised game show, providing the third opportunity for players to win cash prizes, as advertised. There were 43 New Jersey Lottery players who received a thrilling trip and memorable experience attending the nationally televised MONOPOLY MILLIONAIRES' CLUB television show.

The MONOPOLY MILLIONAIRES' CLUB game reemerged as an instant ticket on April 14, 2015, eliminating the drawing and online components. MONOPOLY MILLIONAIRES' CLUB ticket sales were more than \$3.2 million, which is less than 1 percent of overall ticket sales for the year. Retailers earned approximately \$169,000 in commissions.



MONOPOLY MILLIONAIRES' CLUB TV show host Billy Gardell on the Las Vegas set.



The CASH4LIFE draw-based game was launched for New Jersey and New York Lottery players exclusively on June 16, 2014. Once on the market, the concept resonated with other state Lotteries and in response, Pennsylvania Lottery added it to its game roster on April 7, 2015, and Virginia Lottery joined on May 4, 2015.

The attraction of the CASH4LIFE game may be that it is the first draw-based game to offer “for Life” prizes in New Jersey. In addition, with the purchase of a single \$2 ticket, it offers players two top prizes. The game’s top prize is \$1,000 a day for life and its second prize is \$1,000 a week for life. The game features seven additional prize levels ranging from \$2 to \$2,500.

The game’s top prize is \$1,000 a day for life and its second prize is \$1,000 a week for life.

There was one New Jersey top-tier prize winner and three second-tier prizewinners during the year. In total, more than 4.6 million players won prizes this year, with a payout of more than \$31.2 million.

New Jersey ticket sales for Fiscal Year 2015 were more than \$71.4 million, contributing 2.34 percent toward total Lottery sales. The game generated nearly \$3.8 million in retailer commissions and contributed nearly \$23.1 million to Lottery beneficiaries for the year.

Top Picture: NJ Lottery staff celebrates the first anniversary of the CASH4LIFE game.

Bottom Picture: Director Hedinger presents John Opaluch, I, and Joseph Ianiro, r, with their ceremonial \$1,000 a day for life CASH4LIFE check from the Nov. 13, 2014 drawing.



BRAND REFRESH



In January 2015, the New Jersey Lottery brand was refreshed with the introduction of an updated logo, a new and engaging slogan and a dynamic creative advertising campaign. The memorable *“Anything Can Happen in Jersey”* slogan and theme were designed to embrace the distinctly New Jersey persona and celebrate the impressive accomplishments of people from our state.

The advertising story unfolds through an artistic composition of iconic New Jersey sites, and historic footage of Frank Sinatra, Thomas Edison, Buzz Aldron and Jordan Sparks. Every detail of the production from the stirring art direction and voiceover delivery to the emotive musical backdrop was designed to inspire people, generate excitement and provide an entertainment experience.

The concept was created to be modifiable for future campaigns and to celebrate any number of New Jersey success stories with each update. The *“Anything Can Happen in Jersey”* brand architecture included Draw Games, Instant Games, winner awareness and beneficiary messaging. It has quickly become a part of a vernacular that no other state lottery could claim.



2015 WINNERS AND PROMOTIONS

New Jersey Lottery Holiday Instant Games promotion on display in local malls.



The Promotions team at the New Jersey Boat Show in Atlantic City.



Erica Young with Raffle Winner at the QuickChek New Jersey Festival of Ballooning in Reading.



New Jersey Lottery fans win social media sweepstakes and an opportunity to win Joan Jett tickets at the QuickChek New Jersey Festival of Ballooning.

Lottery staff provided holiday fun at malls across the state.



Winner event at Wawa with 93.3 WMMR DJ, Jacky BamBam.



2015 WINNERS AND PROMOTIONS

Atlantic City Beer & Music Festival, March 20-21, 2015, Atlantic City Convention Center.



Wawa celebrates its first \$1,000,000 Instant Game lottery winner.



Prudential Center events, including New Jersey Devils games.



Ocean County St. Patrick's Day Parade.



Mega Millions mascot at a retailer event.



Grocery retailer promotional event.



**STATE OF NEW JERSEY,
DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

Financial Statements and
Supplementary Information

June 30, 2015

TABLE OF CONTENTS

June 30, 2015

	Page Number
MANAGEMENT’S DISCUSSION AND ANALYSIS	21
INDEPENDENT AUDITORS’ REPORT	28
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31
BASIC FINANCIAL STATEMENTS	33
STATEMENT OF NET POSITION	33
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	34
STATEMENT OF CASH FLOWS	35
NOTES TO FINANCIAL STATEMENTS	36

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2015 and 2014. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

The Division of State Lottery was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1 et seq. The Division of State Lottery operates within the Department of the Treasury of the State of New Jersey. The New Jersey Lottery Commission is a seven-member board, appointed by the Governor, authorized and empowered to promulgate rules and regulations in the operation of the Lottery. The "State Lottery Law" also mandates that a minimum of 30% of gross revenues from ticket sales be allocated for contributions to state aid for education and state institutions N.J.S.A. 5:9-7a (11).

As of June 30, 2015, the Division of State Lottery licensed more than 7,600 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated, bonuses and various retailer incentive programs.

On June 20, 2013, a competitively bid 15 year (plus fiscal year 2014 stub year) contract was awarded to Northstar New Jersey, LLC (Northstar NJ) to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income (net proceeds for state aid for education and state institutions). If contracted net income targets for a given fiscal year are met or exceeded, Northstar NJ will earn incentive compensation. Conversely, if net income targets for a given fiscal year are not met it could result in reduced incentive or a contribution shortfall payment to the Division of State Lottery. In addition to compensation for its sales and marketing efforts, Northstar NJ is reimbursed for certain direct costs it incurs on behalf of the Division of State Lottery.

For the purposes of the incentive compensation calculation, the Division of State Lottery's net income is predicated on income targets contained in the Northstar contract (see Schedule of Northstar NJ Net Income Targets). The Division of Lottery's actual net income for a fiscal year is decreased when Northstar NJ earns an incentive payment and is increased if Northstar is obligated to pay a shortfall payment.

Northstar NJ's first operational year, the year ending June 30, 2014 was a stub year October 1, 2013 through June 30, 2014. The remaining fifteen years (Fiscal years 2015 – 2029) of the contract coincide with the Lottery's fiscal year, starting on July 1 and ending on June 30 through the year ending June 30, 2029. The year ending June 30, 2015 was the first full operational year of the contract.

Under the terms of the agreement, Northstar is responsible for subcontracting on behalf of the Lottery for service for which the Division of State Lottery previously contracted. Such services include the online terminal network for ticket sales, the warehousing and distribution of instant tickets, printing contracts for instant tickets, and marketing and advertising services.

INTRODUCTION (Continued)

The Division of State Lottery offers various products for sale with prize awards ranging from \$1.00 to annuity prizes well in excess of \$100 million. The various products sold are:

- Instant Games
- FastPlay (launched in August 2015)
- Pick-3 (Including Pick-3 Instant Match)
- Pick-4 (Including Pick-4 Instant Match)
- Jersey Cash 5 (Including Jersey Cash 5 Instant Match)
- Pick 6 Xtra Lotto
- Mega Millions
- Powerball
- CASH4LIFE
- Monopoly Millionaires' Club (game suspended December 2014)

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2015 and 2014 consisted of total assets of \$511 million and \$517 million, respectively, and total liabilities of \$509 million and \$516 million, respectively. A substantial portion of the asset and liability amounts is due to the Division of State Lottery's annuity investment in prize awards. The total amounts invested and due to Division of State Lottery winners as future installment payments at June 30, 2015 and 2014, were \$269 million and \$296 million, respectively. Net position increased from \$0.80 million in fiscal year 2014 to \$1.80 million for fiscal year 2015.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statement of net position as of June 30, 2015 and 2014, statement of revenues, expenses and changes in net position for years ended June 30, 2015 and 2014, and statement of cash flows for years ended June 30, 2015 and 2014. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

Statement of Net Position

The statement of net position presents the Division of State Lottery's financial position as of the last day of the fiscal year. The Division of State Lottery's assets, liabilities and net position are summarized (in millions) as follows:

	Years Ended June 30,		
	2015	2014	2013
Current Assets	\$ 283	\$ 272	\$ 321
Deposit Fund Contracts	228	245	268
Total Assets	511	517	589
Current Liabilities	280	270	311
Non-Current Liabilities	229	246	269
Total Liabilities	509	516	580
Restricted Net Position	1.5	.5	2
Unrestricted Net Position	.3	.3	7
Total Net Position	\$ 1.8	\$.8	\$ 9

FINANCIAL STATEMENTS (Continued)

Statement of Net Position (Continued)

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the NJCMF), accounts receivable, current year annuity investments and deferred expenses. The investment in the NJCMF totaled \$207 million and \$204 million at June 30, 2015 and 2014, respectively.

The Division of State Lottery funds long-term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was \$269 million and \$296 million as of June 30, 2015 and 2014, respectively. The Division of State Lottery has annuity investments with ten (10) insurance companies. The total market value of the United States Treasury securities was \$45 million at June 30, 2015 and 2014. The annuities due beyond fiscal year 2016 total \$229 million and represent the non-current assets reported on the Division of State Lottery's statement of net position. Although categorized as an asset, annuities represent an obligation that the Division of State Lottery has to the annuitants to fund the monies due to them over a fixed period of time based on the amount of the annuitized jackpot at the time of the "win." The duration of an annuity varies from twenty years to life. Because of the true nature of these annuities, the Division of State Lottery has a fiduciary responsibility to continue to administer these instruments in a responsible and prudent manner. The current amounts due to annuity winners totaled \$40 million and \$51 million as of June 30, 2015 and 2014, respectively.

Non-current liabilities represent annuity prize awards due beyond 2016 and also include the total due for unused vacation and sick leave (compensated absences).

Net position represents the excess of the Division of State Lottery's assets over its liabilities and are summarized as follows (in millions):

	Years Ended June 30,		
	2015	2014	2013
Restricted (Unclaimed Prize Reserves)	\$ 1.5	\$ 0.5	\$ 2.1
Unrestricted	.3	0.3	6.9
Total Net Position	\$ 1.8	\$ 0.8	\$ 9.0

Expired prizes, or unclaimed prize reserves, are restricted to fund either future prizes or state contributions.

FINANCIAL STATEMENTS (Continued)

Statements of Revenues, Expenses and Changes in Net Assets

The results of the Division of State Lottery's operations are presented in the statement of revenues, expenses and changes in net position, which are summarized (in millions) as follows:

	Years Ended June 30,		
	2015	2014	2013
Operating revenues			
Ticket sales	\$ 3,001	\$ 2,901	\$ 2,821
Forfeited prizes	48	39	39
Miscellaneous income	1	2	1
Total operating revenue	3,050	2,942	2,861
Operating expenses			
Prize expenses	1,825	1,732	1,670
Retailer commissions	170	162	158
Northstar NJ fees and expenses	42	29	-
Vendor fees	54	46	36
Administrative expense	10	16	35
Bad debt expense	1	1	-
Total operating expenses	2,102	1,986	1,899
Operating income	948	956	962
Non-Operating Revenue (expenses)	13	1	120*
Income before transfers out	961	957	1,082
Operating transfers – state contributions	960	965	1,085
Increase (decrease) in net position	\$ 1	\$ (8)	\$ (3)

*As part of the contract terms, Northstar provided a \$120 million "accelerated guarantee payment" to the Division of State Lottery which was reflected in the FY 2013 financials as non-operating revenue. Of this amount, \$20 million is apportioned for use by Northstar to offset any Contribution Shortfall Payments required under the compensation terms of the contract.

The Division of State Lottery awarded approximately \$1.825 billion in prize awards in fiscal year 2015 and approximately \$1.732 billion in fiscal year 2014. Nearly 111 million winning tickets were validated and paid in fiscal year 2015. This amount replicates the 111 million winning tickets which were validated and paid in fiscal year 2014.

The Division of State Lottery's vendors provided critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid for the Division of State Lottery's vendors and network fees was \$97 million in fiscal year 2015. Of this amount \$96 million was paid directly to Northstar for the services it provided or procured on behalf of the Division of State Lottery. Included in the \$96 million paid to Northstar NJ was \$23 million for advertising and marketing costs, \$32 million for gaming system vendor fees, \$22 million for instant ticket printing vendor fees and \$19 million for services provided by Northstar NJ. In fiscal year 2014, a stub year of 9 months for Northstar operations, \$75 million was paid to all such vendors including \$16 million for advertising and marketing costs.

FINANCIAL STATEMENTS (Continued)

Statements of Revenues, Expenses and Changes in Net Assets (Continued)

The Division of State Lottery’s administrative expenses for the fiscal years 2015 and 2014 totaled \$10 million and \$16 million, respectively. These administrative expenses include salaries, auditing services, rent, security, data processing services, office supplies and attorney general fees. The decline from fiscal 2014 to fiscal 2015 is directly attributable to the Northstar NJ contract being operational for a full fiscal year (versus being operational for only nine months in fiscal 2014). The contract itself has shifted advertising and other expenses from the Division of State Lottery to Northstar NJ. Other contributing factors for the decline are reduced rent and salary expenses due to reduced staffing levels.

The Division of State Lottery is required by the State of New Jersey Lottery law to contribute a minimum of 30% of net revenues from ticket sales to the State of New Jersey, Department of the Treasury for state aid for education and state institutions. As a result of various sales initiatives, game enhancements, and efficient operations, the Division of State Lottery contributed \$960 million, 32% of net sales, in fiscal year 2015 and \$965 million, 33% of net sales, in fiscal year 2014.

During the term of the contract, Northstar’s incentive compensation is reduced in the event the annual contractual net income target is not met or increased in the event that the net income target is exceeded. Furthermore, in the event that actual net income is significantly below the contracted net income target, then the contribution shortfall payment provisions are invoked. Northstar’s net income target for the fiscal year ending June 30, 2015 was \$1,047,000,000.

The operating income for fiscal year 2015 totaled \$948 million. In accordance with the Northstar NJ contract, a separate calculation is performed to determine the operating income for purposes of establishing the incentive/shortfall payment. The calculation deducts a portion of the unclaimed prizes for use of the Division of State Lottery, and also subtracts the cost of the Million Dollar Replay program. The calculation determined that Northstar NJ’s incentive/shortfall payment is based on operating income of \$940 million. The calculation is shown below.

Operating Income	\$ 948.0 million
Division of State Lottery Portion of Unclaimed Prizes	(6.7) million
Cost of Million Dollar Replay Program	1.3 million
Total Deduction	\$ 940.0 million

The contract contains two scenarios for calculating the contribution shortfall payment. In the first scenario, if Net Income for the contract year is less than the Net Income Target but greater than the Base Level Income, then Northstar NJ will issue to the Division of State Lottery a Contribution Shortfall Payment equal to 50% of the difference between the Net Income Target and the actual Net Income for that specific contract year. If Net Income is less than the Base Level Income, then Northstar NJ will issue to the Division of State Lottery a Contribution Shortfall Payment equal to the sum of 50% of the difference between the Base Level Income and the Net Income Target plus 100% of the difference between the Net Income and the Base Level Income.

FINANCIAL STATEMENTS (Continued)

Statements of Revenues, Expenses and Changes in Net Assets (Continued)

The contract does establish bottom and top caps on Northstar NJ's compensation. In the event of a particularly lucrative contract year (Upper Income Levels are surpassed) total compensation to Northstar NJ cannot exceed 5% of Net Income for the entire contract year. Conversely, in a subpar contract year, the contribution shortfall payment cannot exceed 2% of Net Income.

In fiscal year 2015, the latter scenario was utilized to calculate the Contribution Shortfall Payment as outlined below.

Contribution Shortfall Payment, below Target, above Base	(\$40,000,000)
Contribution Shortfall Payment below Base	(\$25,660,633)
Net Contribution Shortfall Payment	(\$65,660,633)
Low Cap	(\$18,799,399)

The Northstar NJ contract provided for an allowance of \$20 million to offset any potential contribution shortfall payments over the life of the contract. The balance of this allowance as of June 30, 2014 was \$5,889,163. Subsequently, the Contribution Shortfall Payment of \$18,799,399 has been offset from this balance resulting in a net Shortfall Payment of \$12,910,236.

Statement of Cash Flows

The statement of cash flows are summarized (in millions) as follows:

	Years Ended June 30,		
	2015	2014	2013
Cash flows provided by operating activities	\$ 936	\$ 916	\$ 1,022
Cash flows used in non-capital financing activities	(943)	(950)	(1,081)
Cash flows (used in) provided by investing activities	10	34	57
Net increase (decrease) in cash	\$ 3	\$ -	\$ (2)

SUMMARY AND OUTLOOK

Division of State Lottery management has been working closely with Northstar NJ throughout fiscal year 2015, and looks forward to continuing this innovative partnership going into the second full year of the contract.

Prior to the end of fiscal 2014 the Division of State Lottery along with the New York State Lottery launched the new multi-state draw game, CASH4LIFE in which players can win \$1,000 a day for life, \$1,000 a week for life or seven other fixed prize levels. Through fiscal 2015 CASH4LIFE has exceeded expectations and has proved to be both very popular with players and attractive to other lottery jurisdictions with Virginia and Pennsylvania joining the game in the spring of 2015. CASH4LIFE is expected to expand to at least two more states for a total of six states in fiscal 2016.

SUMMARY AND OUTLOOK (CONTINUED)

On October 19, 2014, another new multi-state draw game called “Monopoly Millionaires’ Club” was launched. Monopoly Millionaires’ Club offered three different ways to win \$1 million or more on each ticket and was designed to create hundreds of millionaires. The game would also have its own national TV game show that premiered in March 2015. Unfortunately, as a draw game, Monopoly did not prove popular with players across the nation and the game was cancelled in December 2014. However, the TV game show has resonated with TV audiences and the Division of State Lottery along with its counterparts across the nation instituted a Monopoly instant game that provides players an opportunity to win a chance to appear on the TV game show and compete for cash prizes. In August 2015, the Division of State Lottery launched FastPlay, a new terminal game. Unlike traditional draw games, the FastPlay product line comprises a series of quick play style games generated through the lottery terminal that offer multiple price points and multiple themes. Similar to an instant game, players will know immediately if they have won rather than wait until later in the day or the week for a drawing to take place to learn the outcome. This new “easy to play and win” game category has proven successful with attracting new players in other lottery jurisdictions.

Looking forward, players and retailers can expect to see new promotions and incentive programs, expansion of the retailer base, other new games and other beneficial changes. With the assistance of Northstar NJ, the Division of State Lottery will continue to enhance its position as a major revenue source for the State of New Jersey. The revenue generated by the Division of State Lottery funds various educational and institutional programs throughout the State.

CONTACTING THE DIVISION’S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens with a general overview of the Division of State Lottery’s finances. If you have any questions about this report or need additional financial information, contact the Division of State Lottery’s Deputy Director of Finance at One Lawrence Park Complex, 1333 Brunswick Avenue, PO Box 041, Lawrenceville, New Jersey 08625-0041.

INDEPENDENT AUDITORS' REPORT

State of New Jersey
Department of the Treasury
Division of State Lottery

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2015 and 2014, and the related notes to financial statements, which collectively comprise the Division of State Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of State Lottery as of June 30, 2015 and 2014, and the respective changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages twenty-one through twenty-seven be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division of State Lottery's basic financial statements. The accompanying schedules of revenues, expenses and changes in net position budget and actual, instant game revenues and administrative expenses are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the portion marked "unaudited," the schedules of revenues, expenses and changes in net position budget and actual, instant game revenues and administrative expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of Northstar NJ net income targets as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 19, 2015 and October 31, 2014, for the years ended June 30, 2015 and 2014, respectively, on our consideration of Division of State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division of State Lottery's internal control over financial reporting and compliance.

Mercadien, P.C.
Certified Public Accountants

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 19, 2015



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State of New Jersey
Department of the Treasury
Division of State Lottery

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Division of State Lottery as of and for the years ended June 30, 2015 and 2014, and the related notes to financial statements, which collectively comprise the Division of State Lottery's basic financial statements, and have issued our report thereon dated November 19, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the basic financial statements, we considered the Division of State Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division of State Lottery's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Division of State Lottery's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division of State Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mercadien, P.C.
Certified Public Accountants*

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 19, 2015

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY

STATEMENT OF NET POSITION

	June 30,	
	2015	2014
ASSETS		
Current Assets		
Cash	\$ 3,301,670	\$ 407,418
Accounts receivable, net of allowance for doubtful accounts of \$2,724,000 in 2015 and \$2,433,000 in 2014	16,412,649	13,220,416
Northstar NJ shortfall receivable	12,910,236	-
Deferred Expenses	2,724,776	3,027,054
Investments:		
Deposit Fund Contracts	40,211,749	50,768,499
State of New Jersey Cash Management Fund	207,229,895	204,414,284
Total Current Assets	282,790,974	271,837,671
Non-Current Assets		
Investments - deposit fund contracts	228,525,068	245,502,273
Total Non-Current Assets	228,525,068	245,502,273
Total Assets	511,316,042	517,339,944
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 30,956,803	\$ 13,772,464
Obligation for unpaid prize awards	76,100,675	89,780,528
Installment prize awards	40,211,749	50,768,499
Due to State of New Jersey - education and state institutions	133,000,000	116,010,000
Total Current Liabilities	280,269,226	270,331,491
Non-Current Liabilities		
Compensated absences	723,069	686,899
Installment prize awards	228,525,068	245,502,273
Total Non-Current Liabilities	229,248,137	246,189,172
Total Liabilities	509,517,363	516,520,662
NET POSITION		
Restricted for prize awards or contributions for aid to education and state institutions	1,479,397	499,998
Unrestricted	319,282	319,284
Total Net Position	\$ 1,798,679	\$ 819,282

See accompanying notes to financial statements.

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2015	2014*
Operating Revenues		
Ticket Sales		
Pick-3	\$ 437,774,537	\$ 436,742,690
Pick-4	271,765,815	268,396,396
Jersey Cash 5	148,424,382	148,226,709
Pick 6 Lotto	57,613,947	77,529,761
CASH4LIFE	71,417,890	4,727,306
Monopoly	3,265,580	-
Mega Millions	162,460,731	205,860,905
Powerball	165,435,126	233,653,931
Raffle sales	-	1,227,770
Instant games	1,709,143,246	1,531,771,568
Sales discounts/tickets provided as prizes	(26,772,618)	(6,491,474)
Total Ticket Sales	3,000,528,636	2,901,645,562
Other Revenues		
Forfeited prizes	48,069,961	38,866,559
Miscellaneous	1,391,732	1,705,289
Total Operating Revenues	3,049,990,329	2,942,217,410
Operating Expenses		
Prize expenses	1,825,233,183	1,731,959,514
Retailer commissions	169,445,854	162,107,574
Instant ticket vendor printing fees	22,316,078	18,706,070
Gaming system vendor fees	31,786,934	27,220,623
Northstar NJ management fee	4,850,004	3,552,740
Northstar NJ manager expenses	14,186,014	9,383,269
Northstar NJ advertising & marketing expenses	23,320,008	16,331,995
Administration expenses	9,967,207	15,877,577
Multi-state fees	81,538	65,122
Drawing broadcast fees	334,957	5,980
Bad debt expense	625,000	400,000
Total Operating Expenses	2,102,146,779	1,985,610,464
Operating Income	947,843,550	956,606,946
Non-Operating Revenue Interest	225,611	209,438
Income before Transfers Out	948,069,161	956,816,384
Northstar NJ shortfall (payment)	12,910,236	-
Income available for Transfer	960,979,397	956,816,384
Contributions for state aid to education and state institutions	960,000,000	965,010,000
Change in net position	979,397	(8,193,616)
Net position, beginning of year	819,282	9,012,898
Net position, end of year	\$ 1,798,679	\$ 819,282

*Some amounts have been reclassified to conform with current year presentation.

See accompanying notes to financial statements.

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY

STATEMENT OF CASH FLOWS

	Years Ended June 30,	
	2015	2014
Cash Flows from Operating Activities		
Sales to customers	\$ 1,400,922,317	\$ 1,428,992,039
Payments for prize awards	(376,612,147)	(423,866,990)
Payments for vendor commissions and fees	(95,987,279)	(67,742,494)
Payments to suppliers	(2,628,159)	(34,833,546)
Other payments	(27,741)	(19,526)
Cash flows from annuity operations		
Annuity receipts	48,049,662	64,581,504
Purchases of annuities	(2,862,726)	(8,408,676)
Payments of annuity prizes	(35,297,300)	(42,729,559)
Net Cash Provided by Operating Activities	935,556,627	915,972,752
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	(943,010,000)	(950,009,581)
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,251,147,625	1,281,510,000
Cash Management Fund purchases	(1,240,800,000)	(1,247,500,000)
Net cash (used) provided by investment activities	10,347,625	34,010,000
Net Increase (Decrease) in cash	2,894,252	(26,830)
Cash, beginning of year	407,418	434,248
Cash, end of year	\$ 3,301,670	\$ 407,418
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 947,843,550	\$ 956,606,946
Changes in assets and liabilities		
Accounts receivable	(16,129,858)	(8,040,920)
Investments - deposit fund contracts & tradable stock	27,533,956	36,350,560
Other assets	302,278	9,796,161
Accounts payable and accrued expenses	17,184,339	(32,830,987)
Obligation for unpaid prize awards	(41,213,808)	(45,611,505)
Compensating absences	36,170	(297,504)
Net Cash Provided by Operating Activities	\$ 935,556,627	\$ 915,972,752

See accompanying notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Reporting Entity**

The State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") and the State Lottery Commission (the "Commission") were concurrently established in 1970, pursuant to the "State Lottery Law" (N.J.S.A. 5:9-1 et seq.). The Division of State Lottery operates within the Department of the Treasury of the State of New Jersey. The Commission consists of the State Treasurer and six public members and is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes on winning tickets, the licensing of retailers, and the apportionment of ticket revenues. The Division of State Lottery's financial statements are presented as those of an enterprise fund and include the operations for which the Division of State Lottery is financially accountable and exercises oversight responsibility.

Basis of Accounting

The Division of State Lottery prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

In its accounting and financial reporting, the Division follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles ("GAAP") are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants ("AICPA") cleared by the GASB. Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider nonauthoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board ("FASB"), Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

State of New Jersey Cash Management Fund

Investments in the State of New Jersey Cash Management Fund are valued at cost, which approximates fair value.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Accounts Receivable**

Accounts receivable is comprised primarily of amounts due from retailers. The allowance for uncollectible accounts is funded by a \$100 per year license renewal fee paid by the Division's retailers. Operating expense is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

Installment Prize Awards and Prize Expenses

Installment prize awards are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Division of State Lottery for prize disbursements. The Division of State Lottery purchases annuity contracts from insurance companies and U.S. government securities to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards.

Due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of annuity contracts and U.S. government securities necessary to satisfy stated prize awards plus any single payment awards. These annuities are presented on the statements of net position as deposit fund contracts, carried at contract value which approximates fair value.

Equipment

The Division follows the state's threshold for capitalizing equipment as follows: machinery and equipment over \$20,000 and motor vehicles over \$30,000. Purchases that do not meet the threshold for capitalization are recognized as expenses in the statements of revenues, expenses and changes in net assets in the period during which they are acquired and are included in administrative expenses. As of June 30, 2015 and 2014, leasehold improvements included in deferred expenses were \$734,362. For the years ended June 30, 2015 and 2014, amortization expense was \$68,408 and \$52,668, respectively.

Net Position**Restricted**

Amounts restricted for prize awards or contributions for aid to education and state institutions consist of prizes that are not claimed within one year from the date of the drawing for machine games and within one year from the date of game's closing for instant games.

Unrestricted

The unrestricted net position represents resources available for current operating expenses in compliance with legal and budgetary restrictions.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue Recognition**

Revenues from the sale of lottery tickets are recognized as follows:

- "Pick-3," "Pick-4," "Jersey Cash 5," "Pick-6 Lotto," "Mega Millions," "Megaplier," "Powerball," "Power Play," "CASH4LIFE," "Monopoly," and various raffle games on the drawing date.
- Instant games are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost, to be used for promotional purposes. Tickets provided as prizes are recorded as sales at the face value of each ticket, then backed out as discounts and are not included in prize expense.

Forfeited Prizes

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing for machine games and within one year from the date of the game's closing for instant games be forfeited. Effective November 21, 1991, the Commission authorized that 70% of forfeited prizes are to be maintained restricted for prize awards and are available to augment future prize awards or, at the discretion of the executive director, to augment the Division of State Lottery's contribution for state aid for education and state institutions. The remaining 30% goes directly to contributions to aid education and institutions to be consistent with the 30% minimum contribution requirement of the State Lottery Law. Forfeited prizes are recognized as "Other Revenues" during the period forfeited. For the years ended June 30, 2015 and 2014, forfeited prizes were \$48,069,961 and \$38,866,559, respectively.

Contributions and Prize Awards

The State Lottery Law requires no less than 30% of total revenues accruing from ticket sales to be paid to the State Treasury for state aid for education and state institutions. Contributions for the years ended June 30, 2015 and 2014, aggregated \$960,000,000 and \$965,010,000, respectively, of which \$133,000,000 and \$116,010,000 was due to the State Treasury at June 30, 2015 and 2014, respectively.

For machine games, the Division of State Lottery has designated that a minimum of 45% of gross revenues be allocated for prize awards, including retailer bonuses. Prize expense is recorded when the winning ticket number is selected for the respective lottery game based on eligible winning tickets sold. For instant games, the percentage of gross revenues to be allocated for prize awards varies by game.

Commissions and Fees

Retailers receive a commission of 5% based on the total tickets sold, a commission of 1.25% of terminal validations and top tier selling bonuses. The online game contractor receives a fee equal to a contractual percentage of the revenue generated through the respective network maintained by the contractor. All other gaming contractors are paid fees based on the units of service provided.

Northstar NJ has had numerous retailer incentive programs for the purpose of boosting sales, these include temporary commission increases and bonuses. Both of these incentives are recorded as prize expense.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Vacation and Sick Leave**

The Division records vacation and sick time incurred during the period in “administrative expenses” in the accompanying statements of revenues, expenses and changes in net assets. Payments for accumulated sick leave balances are made to retiring employees upon regular retirement from the State of New Jersey’s General Fund. Such payment is based on 50% of the employee’s sick leave accumulation at the pay rate in effect at the time of retirement, up to a maximum of \$15,000. Employees separating from service prior to retirement are not entitled to payments for accumulated sick leave.

Advertising

The Division of State Lottery uses advertising to promote the sale of lottery tickets. Starting October 1, 2013, these services were transferred to Northstar NJ as part of the management contract. Prior to shifting to Northstar NJ, the costs of advertising were expensed as incurred by the Division of State Lottery. The Division of State Lottery incurred no advertising expenses for the year ended June 30, 2015 and \$5,204,308 for the year ended June 30, 2014.

B. CASH AND INVESTMENTS

The Division of State Lottery adopted GASB Statement No. 40, “Deposits and Investment Risk Disclosures,” which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in possession of an outside party. The following is a summary of the Division’s cash deposits by financial institution and the amount exposed to custodial credit risk at June 30, 2015 and 2014. The Division’s deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2015	2014
Wells Fargo	\$ 3,301,670	\$ 407,418
New Jersey Cash Management Fund	207,229,895	204,414,284
Total	\$ 210,531,565	\$ 204,821,702

The New Jersey Cash Management Fund is a common trust fund administered by the Department of the Treasury, Division of Investments. Securities in the fund are insured, registered or held by the Division of Investment or its agents in the Division’s name. Since the New Jersey Cash Management Fund is a pooled investment and the cash balance is guaranteed by the State of New Jersey, the Commission’s investment in the New Jersey Cash Management Fund is not subject to custodial credit risk under GASB Statement No. 40.

Fair Value Measurements

The Division of State Lottery follows the Fair Value Measurements Topic of the FASB Accounting Standards Codification, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America.

B. CASH AND INVESTMENTS (Continued)

As defined in the Fair Value Measurements Topic of the FASB Accounting Standards Codification, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Division of State Lottery uses the stock market index approach. Based on this approach, the Division of State Lottery often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Division of State Lottery utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Division of State Lottery is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Fair Value on a Recurring Basis

The table below presents the balances of investments - deposit fund contracts measured at fair value on the statement of net position as of June 30, 2015 and 2014:

		June 30, 2015			
	Total	Level 1	Level 2	Level 3	
Annuity Investment Deposit Fund Contracts	\$ 268,736,816	\$ 45,496,949	\$ 223,239,868	\$ -	
Total	\$ 268,736,816	\$ 45,496,949	\$ 223,239,868	\$ -	
		June 30, 2014			
Annuity Investment Deposit Fund Contracts	\$ 296,270,772	\$ 44,563,284	\$ 251,707,488	\$ -	
Total	\$ 296,270,772	\$ 44,563,284	\$ 251,707,488	\$ -	

C. FUTURE INSTALLMENT PRIZE AWARDS

The Division of State Lottery purchases annuity, or deposit fund contracts, from insurance companies and U.S. government securities to fund its liability for future installment prize awards. Generally, insurance company annuity contracts fund life annuities for games such as the CASH4LIFE draw game and Win for Life instant games. U.S. government securities fund term annuity prizes for games such as Pick 6 Xtra Lotto, Mega Millions, Powerball and instant games. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

Annuity contracts are carried at their current contract values, which are based upon their original purchase prices adjusted for credited interest and amounts already received. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include the following requirements:

1. Combined capital and surplus of at least \$1 billion;
2. Admitted assets of at least \$10 billion;
3. Risk-based capital ratio of at least 300%; and
4. Must have ratings equal to or better than at least two of the three private rating agencies:
 - Standard & Poor's long-term insurer financial strength rating of AA- or higher
 - AM Best financial strength rating of "A" or higher
 - Moody's long-term insurance financial strength rating of "Aa3" or higher.

According to the Division of State Lottery's calculation, only one company does not meet the criteria, that of Delaware Life, formerly Sun Life Assurance; as of June 30, 2015 and 2014, Delaware Life had annuity contracts totaling approximately \$28,936,804 and \$36,773,973, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. At June 30, 2015 and 2014, the Division of State Lottery held insurance company annuity contracts totaling \$223,239,868 and \$251,707,488, respectively, issued through ten insurance companies, which are due in installments ranging from twenty-five years to the lifetime of the recipient. The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statement of net position at June 30, 2015 and 2014.

U.S. government securities are carried at fair value. At June 30, 2015 and 2014, the Division of State Lottery had \$45,496,949 and \$44,563,284, respectively, in U.S. treasuries (see Note B).

Concentrations of Credit Risk

"Concentration of Credit Risk" is the risk that relates to the amount of investment at any one entity. The disclosure requirement of this risk factor is limited to investments in excess of 5% of the total. Guaranteed annuity contracts, as stated above, are the only category subject to concentration of credit risk disclosure.

A significant portion (in excess of 5% of total) of the Division of State Lottery's investment in annuity contracts at such date is invested with each of the following five companies:

- Ohio National Life
- New York Life Insurance Co.
- Protective Life
- Metropolitan Life
- Delaware Life (formerly Sun Life Assurance)

D. LITIGATION

The Division of State Lottery is a party to a number of lawsuits arising out of the conduct of its business. While the ultimate results of the lawsuits or other proceedings against the Division of State Lottery cannot be predicted with certainty, management of the Division of State Lottery does not expect that these matters will have a material adverse effect on the financial position or results of operations of the Division of State Lottery.

E. COMMITMENTS**Contractual Arrangements**

The Division of State Lottery maintains a gaming network of over 7,600 retailer locations where all games are sold. IGT Corporation, formerly GTECH Corporation, is responsible for operating the network games and providing courier services under a contract that was assigned to Northstar NJ on October 1, 2013 and expires concurrent with Northstar NJ's contract.

On June 20, 2013, a competitively bid 15-year contract was awarded to Northstar New Jersey Lottery Group, LLC to provide sales and marketing services to the Division of State Lottery. Northstar New Jersey Lottery Group, LLC is owned directly by two members: (1) Scientific Games New Jersey, LLC, and (2) Northstar New Jersey Holding Company, LLC, and indirectly by three companies: (1) IGT Corporation and (2) OSI LTT NJ Holdings Inc., which are the Members of Northstar New Jersey Holding Company, LLC, and (3) Scientific Games International, Inc., which is the owner of Scientific Games New Jersey, LLC. The base services commenced on October 1, 2013. The contract required NSNJ to bid net income targets for each fiscal year of the 15-year contract. If NSNJ meets or exceeds the net income target for a given fiscal year, it can earn an incentive pay or alternatively, if it doesn't meet the net income target, it is assessed a penalty. The Northstar NJ contract provides for an allowance of \$20 million to offset any potential contribution shortfall payments over the life of the contract. For fiscal year 2014 (stub year), the calculated contribution shortfall amounted to \$14,110,837 which was deducted from the \$20 million contractual allowance for such purposes leaving a contribution shortfall allowance balance of \$5,889,163. For fiscal year 2015, the calculated contribution shortfall amounted to \$18,799,399 which was offset by the remaining allowance of \$5,889,163, resulting in a net shortfall payment of \$12,910,236.

Prior to the beginning of each fiscal year the Division of State Lottery and Northstar NJ agree to an annual business plan that includes the projected operating expenses of Northstar NJ for the fiscal year. Each month NSNJ may invoice the Division of State Lottery one twelfth (1/12) of the total operating expenses for the fiscal year. Each monthly invoice is accompanied by detailed backup data and information supporting expenses incurred. At the end of the fiscal year Northstar NJ operating expenses are aggregated and reconciled with any excess returned to the Division of State Lottery. The Northstar NJ expenses for services to the Division of State Lottery amounted to \$42,356,026 and \$29,268,004 for the years ended June 30, 2015 and 2014 (stub year), respectively.

In addition to the budgeted monthly expenditures, NSNJ receives a system provider vendor fee based on 1.05% of ticket sales and an instant ticket printing fee based on 1.216% of ticket sales as part of its subcontractor agreements. All other gaming contractors are paid fees based on the units of service provided.

E. COMMITMENTS (Continued)

Operating Leases

The Division of State Lottery leases certain office facilities and equipment under non-cancelable operating lease agreements expiring through fiscal year 2024.

Future minimum lease payments for office facilities are as follows:

Year Ended June 30,	Amount
2016	\$ 793,433
2017	767,619
2018	638,550
2019	648,583
2020	655,750
2021-2024	2,240,479
	<u>\$ 5,744,414</u>

Rent expense for office facilities and equipment for the years ended June 30, 2015 and 2014, was \$1,130,524 and \$1,127,424, respectively.

F. GASB STATEMENT NUMBER 45 - ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION

The Division of State Lottery is a member of the State of New Jersey’s cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, the Division of State Lottery’s portion of this liability and cost is included in the State of New Jersey’s Comprehensive Annual Financial Report, as such, the Liability of Division of State Lottery’s employees is covered under the State plan on an annual basis.

Please refer to State website www.state.nj.us for more information regarding the plan.

G. PENSION PLAN

The Division of State Lottery's employees which are part of the Department of the Treasury, participate in the Public Employees Retirement System of New Jersey ("PERS"), a cost sharing multiple-employer defined benefit plan. The Division of State Lottery's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS.

The Division of State Lottery's total and covered payroll for the years ended June 30, 2015, 2014 and 2013, was, \$6,306,627, \$6,421,066 and \$8,871,554, respectively. The State of New Jersey's (the "State") contribution is based on the employer contribution rate developed by the system's actuary. The rate is then applied against the pension-eligible salary for all State employees. The State does not keep track of contributions made to PERS for each separate state agency. For fiscal year ended June 30, 2015 and 2014, the contribution rate was 3.06% and 3.06%, respectively. For fiscal year ended June 30, 2013, the contribution rate was 6.03%.

The State of New Jersey, Division of Pension and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting its website at: www.state.nj.us/treasury/pensions.

H. ROUNDING

Some schedules in the financial statements may have dollar differences due to rounding adjustments.



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